

2017/18

STATEMENT OF PERFORMANCE EXPECTATIONS



EDUCATION PAYROLL
LIMITED

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2017/18

EDUCATION PAYROLL LIMITED

**STATEMENT OF PERFORMANCE
EXPECTATIONS**

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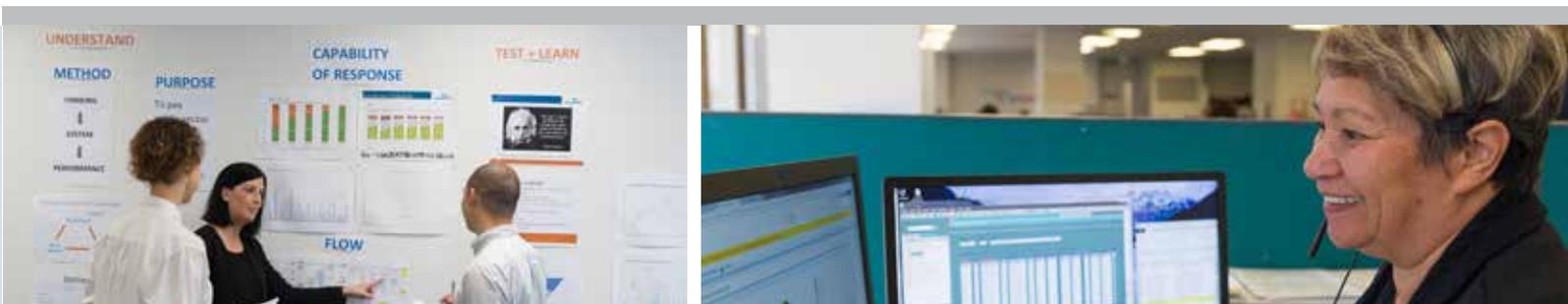


STATEMENT OF PERFORMANCE EXPECTATIONS

This statement outlines the performance expectations of Education Payroll Limited (EPL) for the year ending 30 June 2018, covering both service performance and the prospective financial statements.

This Statement of Performance Expectations aligns with EPL's 2016-2020 Statement of Intent (SOI) and should be read in conjunction with this which provides more information about our operating environment and sets out our key objectives.

Progress towards achieving our performance expectations will be reported in EPL's 2018 Annual Report. 



WHO WE ARE

EPL is a Crown company established to provide accurate, reliable and timely school payroll services on behalf of the Ministry of Education. Ownership is held between two Shareholding Ministers, the Minister of Education and the Minister of Finance.

Our schools payroll is the largest in New Zealand. We pay around 93,000 school employees every fortnight and disburse over \$4.6 billion each year. We provide payroll services to around 2,500 schools and work with 6,700 payroll administrators.

We deliver an efficient, integrated payroll service to schools. Our purpose is to pay school employees accurately and on time.

Our services include:

- Providing guidelines and communications to schools to support them to fulfil their payroll responsibilities
- Processing pay instructions received from school payroll administrators
- Answering queries from schools about their payroll

- Providing reports to schools on payroll activity
- Providing instructions for direct crediting of payroll
- Providing employees with a payslip
- Maintaining individuals' and schools' payroll records
- Providing instructions for payments to third parties involved in payroll, such as IRD and ACC
- Recovery of overpayments
- Conducting salary assessments
- Processing of periodic payroll events

Our services are delivered from our Wellington and Christchurch pay centres.

EPL have a Service Agreement with Ministry of Education to deliver payroll services to schools. 

EPL VALUES

Make things easier

For everyone, including schools, partners and our colleagues

Improve through understanding

Use real information and evidence to identify what to improve

Learn through doing

Try things out, be practical and innovative

Work as a team

Bring all the strengths we have together to make things happen

Treat everyone with respect

Have a great working spirit with schools, the Ministry, partners and each other

SERVICE PERFORMANCE EXPECTATIONS

EPL delivers one output which is the effective payroll services to end users – school employees. EPL has a clear focus on providing an accurate, reliable and timely payroll.

Our core services include:

- Delivery of the core payroll to teachers and support staff
- Management of debt related to payroll overpayments
- Assessment of teachers' qualifications and relevant experience to determine correct salaries
- Processing and administration of ACC claims on behalf of schools

Our Statement of Intent 2016-2020 includes measures related predominantly to the delivery of the overall payroll service. The measures below expand on these and include measures specific to the core services above. These measures help us assess how well we are delivering services to schools and stakeholders.

The prospective financial statements represent the revenue and expenses for the output and these services.

as at 30 June	Forecast \$000 2017/18	Budget \$000 2016/17	Forecast \$000 2016/17
Revenue	24,822	24,757	26,092
Expenditure	24,822	24,757	27,063
Surplus/(Deficit)	0	0	(971)

CORE PAYROLL SERVICE

Services which relate to the accurate provision of payments and entitlements to school employees.

We receive on average 12,000 payroll instructions every fortnight.

PERFORMANCE MEASURE	DESCRIPTION	2015/16 Actual	2016/17 Estimated Actual	2017/18 Standard
ACCURACY				
Payroll payments to eligible teachers and schools support staff are accurately calculated	Percentage of employees paid excluding requests, by exception, to correct payments to employees and pay impacting tickets not processed in the current fortnight	99.8%	99.8%	99.5%
Payroll instructions submitted 'right first time' by schools	Percentage of payroll instructions received from schools that can be processed first time without being returned for further information	Not measured	Not measured	80%
TIMELINESS				
Payroll payments to eligible teachers and school support staff which are sent to financial institutions on time in order to be processed on or before advised pay dates	Percentage of employees paid excluding the employees receiving a manual pay in the fortnight following the advised pay date	99.5%	99.5%	99.5%
QUALITY				
Customer satisfaction	Percentage of survey respondents satisfied with the overall quality of the service delivery and the support they receive from EPL	Not measured	67%	70%

DEBT MANAGEMENT

Notification, recovery and administration of payroll related overpayments.

PERFORMANCE MEASURE	DESCRIPTION	2015/16 Actual	2016/17 Estimated Actual	2017/18 Standard
ACCURACY				
New overpayments created	Percentage reduction in new overpayments created compared with the previous year	Not measured	Not measured	15%
TIMELINESS				
Debt notification made on time	Debtors will receive their first notification of debt within 15 working days of the debt being discovered ¹	Not measured	Not measured	100%

¹ Discovery is either the date of notification from the school/Ministry of Education/third party, or the date the overpayment is discovered by EPL.

SALARY ASSESSMENT

Assessment of teachers' qualifications and relevant experience to determine the correct salary and ensure correct salary payments.

We receive approximately 8,000 assessments each year.

PERFORMANCE MEASURE	DESCRIPTION	2015/16 Actual	2016/17 Estimated Actual	2017/18 Standard
ACCURACY				
Notification of errors related to salary assessment determinations	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, the Ministry of Education, or an overpayment related to incorrect salary assessment	Not measured	Not measured	99.5%
TIMELINESS				
Salary assessments processed on time	Accurate assessments will be processed within 15 working days from date of receipt	Not measured	Not measured	100%

ACC ADMINISTRATION

Processing and administration of ACC claims on behalf of schools, in accordance with the Employment Reimbursement Agreement with the Ministry.

We process approximately 1,900 ACC claims each year.

PERFORMANCE MEASURE	DESCRIPTION	2015/16 Actual	2016/17 Estimated Actual	2017/18 Standard
ACCURACY				
Notification of errors related to ACC claims	Percentage of transactions received and completed that did not result in notification of errors from schools, employees, the Ministry of Education, ACC, or an overpayment related to the incorrect processing of an ACC claim	Not measured	Not measured	99.5%

PROSPECTIVE FINANCIAL STATEMENTS

The prospective financial statements have been developed for the purpose of fulfilling EPL's obligations under the Crown Entities Act 2004, to table a Statement of Performance Expectations before Parliament. It is important to note that the forecast financial statements are estimates based on available information at the time of publication and contain inherent uncertainties. Actual financial results achieved for the forecast period is likely to vary from information presented and the variations may be material.

In issuing the financial statements, the Board of EPL acknowledges its responsibility for the information presented, including the appropriateness of the assumptions used. The Board also acknowledges its responsibility for establishing and maintaining a system of internal control that is designed to provide reasonable assurance as to the integrity and reliability of EPL's performance and financial reporting.

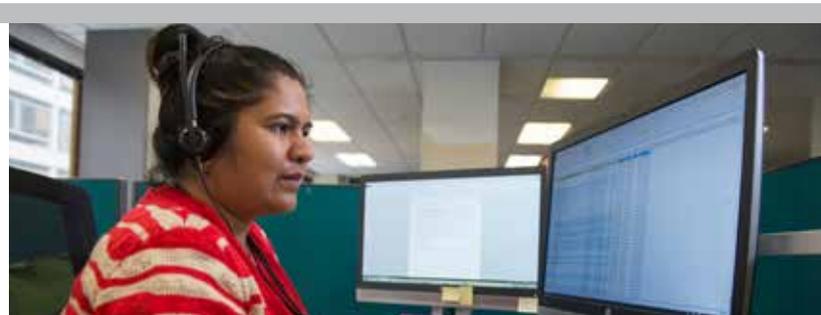
These prospective financial statements are issued as at 23 June 2017 and based on information available at the time.



Murray Jack
Chair
Education Payroll Limited



Cathy Magiannis
Chair of Audit and Risk Committee
Education Payroll Limited



PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE & EXPENSES FOR THE PERIOD ENDED 30 JUNE 2018

Period ended 30 June	Notes	Forecast \$000 2017/18	Budget \$000 2016/17	Forecast \$000 2016/17
Revenue from exchange transactions				
Sales of Services to Government	4	24,810	24,637	26,080
Total Operating Revenue		24,810	24,637	26,080
Expenses				
Personnel Expenses		9,952	8,462	9,306
Third Party Support		2,747	5,702	6,148
Corporate Expenses		676	568	648
Auditor's remuneration		48	43	52
Directors fees		140	108	136
Travel & Entertainment		91	156	86
Accommodation & Facilities		1,183	860	1,593
ICT Costs		5,240	4,919	4,875
Depreciation & Amortisation	14	4,743	3,927	4,197
Other Costs		–	–	10
Total Operating Expenses		24,820	24,745	27,051
Other comprehensive income				
Gain on asset disposal		–	–	–
Total other comprehensive income		–	–	–
Finance income				
Interest Received		12	120	12
Finance expenses				
Interest expense		2	12	12
Total Finance Costs		10	108	0
Total surplus/(deficit) for the period		0	0	(971)
Total comprehensive income		0	0	(971)

Major variations in the level of operating revenue and expenditure between 2016/17 and 2017/18 is explained below.

Revenue: Revenue in 2016/17 included additional revenue approved through change requests with the Ministry of Education during the year for one-off service changes.

Expenditure: Expenditure in 2017/18 reduces from 2016/17 levels to reflect the corresponding revenue reduction related to change requests for new services delivered in 2016/17 only, and one-off costs incurred in 2016/17 that relate to the Kaikoura earthquake and corresponding impacts on EPL's accommodation.

The accompanying notes should be read in conjunction with these financial statements.

PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

As at 30 June	Notes	Forecast \$000 2017/18	Budget \$000 2016/17	Forecast \$000 2016/17
Current Assets				
Cash and cash equivalents	9	4,886	7,797	5,251
Receivables from exchange transactions			–	–
Prepayments		1,029	733	1,029
Total Current Assets		5,915	8,530	6,280
Non-Current Assets				
Property, Plant and Equipment	11	897	999	1,290
Intangible Assets	15	16,838	17,437	15,300
Work In Progress	12	2,950	500	4,078
Total Non-Current Assets		20,685	18,936	20,668
Total Assets		26,600	27,466	26,948
Represented by				
Current Liabilities				
Finance Lease Liability (Current Portion)	7	–	112	112
Accruals and Payables	18	1,715	2,587	1,918
Employee entitlements	19	400	550	433
Total Current Liabilities		2,115	3,249	2,463
Non-Current Liabilities				
Finance Lease Liability (Term Portion)	7	–	–	–
Total Non-Current Liabilities		–	–	–
Net Assets		24,485	24,217	24,485
Shareholders' Funds				
Capital Contributions	20	25,520	24,217	25,520
Retained Earnings		(1,035)	–	(1,035)
Total Shareholders' Funds		24,485	24,217	24,485

The accompanying notes should be read in conjunction to these financial statements

PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

	Forecast \$000 2017/18	Budget \$000 2016/17	Forecast \$000 2016/17
Opening Balance	24,485	24,217	25,456
Movements:			
Capital Contributions	–	–	–
Total Comprehensive Income for the Year	–	–	(971)
Balance as at 30 June	24,485	24,217	24,485

The accompanying notes should be read in conjunction to these financial statements



PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2018

Period ended 30 June	Forecast \$000 2017/18	Budget \$000 2016/17	Forecast \$000 2016/17
Cashflows from Operating Activities			
Receipts from Sales of Services for Government	28,532	28,333	29,992
Receipts from Interest Received	12	120	12
Other Income	–	–	2
	28,544	28,453	30,006
Payments to Suppliers	12,234	14,534	17,443
Payments to Employees	12,453	8,894	9,981
	24,687	23,428	27,424
Net Cash Inflows from Operating Activities	11	3,857	5,025
Cashflows from Investing Activities			
Payments:			
Purchase of Assets*	1,160	4,000	1,946
Payments of Work In Progress items	2,950	–	2,394
	(4,110)	(4,000)	(4,340)
Net Cash (Outflows) from Investing Activities			
Cashflows from Financing Activities			
Receipts:			
Proceeds from Capital Contributions	–	–	–
Payments:			
Repayments of Finance Lease	112	228	216
	112	228	216
Net Cash (Outflows/Inflows) from Financing Activities	(112)	(228)	(216)
Net increase in cash and cash equivalents	(365)	797	(1,974)
Cash and Cash Equivalents at Beginning of Period	5,251	7,000	7,225
Cash and cash equivalents at the end of the period	4,886	7,797	5,251
Represented by:			
Cash at Bank	4,886	7,797	5,251
	4,886	7,797	5,251

The accompanying notes should be read in conjunction to these financial statements

*Assets include intangible and non-intangible assets

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Education Payroll Limited (EPL), is a limited liability company incorporated on 27 August 2014. EPL was formed following a decision to transfer ownership and management of the schools' payroll service from Talent2 to a new government-owned company. The new company commenced operations on 17 October 2014 and resides in New Zealand under the Companies Act 1993. It is a Crown entity as defined by the Crown Entities Act 2004 and listed in Schedule 4A of the Public Finance Act 1989.

EPL's purpose is to provide a payroll service to the Ministry of Education that ensures school payroll information and entitlements are accurately recorded, school staff paid correctly and on time, and payroll information is easily accessible to both the schools and the Ministry of Education. As such, EPL's principle aim is to provide services to the public, rather than make a financial return. Accordingly, EPL is designated as a public benefit entity (PBE).

The Crown does not guarantee the liabilities of EPL in any way.

2. STATEMENT OF COMPLIANCE

The prospective financial statements are for the year ended 30 June 2018. They have been prepared in accordance with the Financial Reporting Act 2013, which requires compliance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand Financial Reporting Standard No. 42 – Prospective Financial Statements.

The financial statements of the company comply with Public Benefit Entity (PBE) standards and have been prepared in accordance with Tier 1 PBE standards.

3. PRESENTATION CURRENCY

The financial statements are presented in New Zealand dollars, all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4. REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from Exchange Transactions Payroll services provided to the Ministry of Education on commercial terms are exchange transactions. Unbilled revenue at year end is recognised in the Statement of Financial Position as receivables from exchange transactions.

Revenue from the provision of payroll services is an exchange transaction, recognised when the following criteria are met:

- significant risks and rewards of the services have passed to the buyer
- services have been delivered, and
- the amount can be measured reliably and it is probable that the service potential associated with the transaction will flow.

5. FOREIGN CURRENCY TRANSACTION

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in surplus or deficit.

6. RECEIVABLES

Accounts receivable are recognised at fair value. A provision for impairment of accounts receivable is made where there is objective evidence that EPL will not collect all amounts due according to the original terms of the receivable. When this occurs, the receivable is recorded at amortised cost, less provision for impairment. When the receivable is uncollectible, it is expensed in the Statement of Comprehensive Revenue and Expenses.

7. LEASES

Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At commencement of the lease term, finance leases where EPL is the lessee are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to surplus or deficit as interest expense over the period of the lease.

Operating Lease

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

8. FINANCIAL INSTRUMENTS PRESENTATION

Financial assets and financial liabilities are recognised when EPL becomes a party to the contractual provisions of the financial instrument.

EPL's financial liabilities include trade and other creditors, and borrowings that pertains to EPL's Finance Lease.

EPL derecognises a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when the rights to receive cash flows from the asset have expired or are waived, or EPL has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:

- EPL has transferred substantially all the risks and rewards of the asset; or
- EPL has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

10. LOANS AND RECEIVABLES

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost less any allowance for impairment.

11. PROPERTY, PLANT AND EQUIPMENT

Property plant and equipment asset classes consist of office equipment, furniture & fittings, ICT equipment & leasehold improvements.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

The cost of an item of property, plant and equipment is only recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to EPL and the cost of the item can be measured reliably.

Where an asset is acquired at no cost, or for a nominal cost, the asset will be recorded at fair value at the date of acquisition when control of the asset is obtained.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to EPL and the cost of the item can be measured reliably.

The costs of servicing property, plant and equipment are recognised in the Statement of Comprehensive Revenue and Expenses as they are incurred.

12. WORK IN PROGRESS

Non-Current Assets under construction are recognised at cost within current assets and are not depreciated.

13. GAINS AND DISPOSALS

Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount of the asset. Gains and losses on disposal are included in the Statement of Comprehensive Revenue and Expenses.

14. DEPRECIATION

Depreciation on property, plant and equipment (excluding work in progress) is calculated on a straight line basis, from the time the asset is in the location and condition necessary for its intended use.

The straight line basis allocates the cost or value of the asset, less its residual value, over its estimated useful life.

The depreciation method, estimated useful lives and residual values of property, plant and equipment are reviewed annually to assess appropriateness.

The following estimated useful lives are used in the calculation of depreciation:

Office equipment	2 to 10 years
Furniture & fittings	3 to 12 years
ICT equipment	1 to 12 years
Leasehold improvements	1 to 11 years

INTANGIBLE ASSETS

15. SOFTWARE ACQUISITION AND DEVELOPMENT

Software is a finite life intangible asset and is recorded at cost less accumulated amortisation and impairment.

Amortisation is charged on a straight line basis over the estimated useful life of the intangible asset.

Software in development is recorded as in work in progress until completed, at which point it is transferred to intangible assets.

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing.

Costs that are directly associated with the development of software are classified as an intangible asset when the following criteria are met:

- it is feasible to complete the development
- it can be demonstrated how the development can enhance or generate future economic benefit in a probable manner
- the expenditure attributable during its development can be reliably measured

Other development expenditure that does not meet the above criteria is recognised as an expense.

The following amortisation rates are used in the calculation of amortisation:

Software Licenses	6 to 8 years
Developed Software	8 years
Purchased Software	1 to 4 years
Other Intangibles	6 years

16. GOOD AND SERVICES TAX

All items in the financial statements are stated exclusive of goods and services tax (GST), except for receivables and payables, which are presented on a GST – inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

17. INCOME TAX

EPL is currently exempt from income tax. Accordingly, no provision has been made for income tax.

18. ACCRUALS AND PAYABLES

Creditors and other Payables are non-interest bearing and are normally settled on 20th of the following month, therefore the carrying values of creditors and other payables approximate their fair value.

19. EMPLOYMENT ENTITLEMENTS

Employment entitlements that EPL expects to be settled within 12 months of balance date are measured at nominal value on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date; annual leave earned but not yet taken at balance date; expected to be settled within 12 months.

20. EQUITY

Equity is the shareholder's interest in EPL, measured as the difference between total assets and total liabilities.

100 shares were issued in 2014 to the Minister of Finance and Minister Responsible for Novopay. These have not been fully paid.

21. COST ALLOCATION

EPL has provided the full cost of its output measured on a full accrual accounting basis. EPL provides a single output – the delivery of the schools' payroll service.

22. CRITICAL ACCOUNTING JUDGMENTS ESTIMATES AND ASSUMPTIONS

In preparing these prospective financial statements EPL has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results and these differences may be material.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant assumptions reflected in these prospective financial statements are:

Funding for payroll services delivered by EPL is through a Services Agreement with the Ministry of Education.

The nature and level of investment funding in relation to schools payroll sustainability has not been agreed at the time of developing these prospective financial statements. As a result there are no assumptions built into the statements regarding new funding.

The useful lives of intangible assets are predominantly based on the current term of the Alesco software licence.

